

REPORT OF EXAMINATION  
OF  
MAUZEY ENTERPRISES, INC.  
(DBA HISCO HOME WARRANTY)

AS OF  
DECEMBER 31, 2004

Filed June 16, 2006

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San Francisco, California  
March 15, 2006

Honorable John Garamendi  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of

MAUZEY ENTERPRISES, INC. (DBA HISCO HOME WARRANTY)

(also referred to as the Company) at its home office located at 7567 Amador Valley Road, Suite 200, Dublin, California 94568.

#### SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2001. This examination covers the period from January 1, 2002 through December 31, 2004.

The present examination of the Company included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2004, as deemed necessary under the circumstances. In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

## COMPANY HISTORY

The Company was incorporated under the laws of the State of California in March 1977, and received its license on September 18, 1980 to operate as a home protection company. The Company has 200,000 shares of common stock authorized, with 50,500 shares issued and outstanding with no par value. Pursuant to California Insurance Code (CIC) Section 690, the Company's shares of stock, authorized or issued should have a par value. It is recommended that the Company take corrective action and comply with CIC Section 690. This is a repeat comment from the prior examination.

## MANAGEMENT AND CONTROL

The Company is wholly-owned by DeWayne R. Mauzey and Susan A. Mauzey. Following are the members of the board of directors and principal officers as of December 31, 2004:

### Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
DeWayne R. Mauzey Danville, California	President Mauzey Enterprises, Inc.
Susan A. Mauzey Danville, California	Treasurer Mauzey Enterprises, Inc.
James M. Armstrong Pleasanton, California	Vice President and Secretary Mauzey Enterprises, Inc.

### Principal Officers

<u>Name</u>	<u>Title</u>
DeWayne R. Mauzey	President
Susan A. Mauzey	Treasurer
James M. Armstrong	Vice President and Secretary

### Conflict of Interest

The Board of Directors adopted a conflict of interest policy, which was included in its minutes of the regular meeting on May 5, 1998. The policy does not address possible conflicts regarding financial relationships with customers, suppliers, issues regarding gifts from customers or suppliers or the disclosure of a condition that may possibly be a conflict. In addition, the policy does not require officers and key employees of the Company to complete a conflict of interest questionnaire on an annual basis. It is recommended that the Company adopt a more comprehensive conflict of interest policy that is completed on an annual basis.

### CORPORATE RECORDS

The Company has not recorded Board of Director meeting minutes since the prior examination, which is not in compliance with the Company's by-laws. It is recommended that the Company take corrective action to comply with its by-laws.

### TERRITORY AND PLAN OF OPERATION

The Company is licensed to issue home protection contracts in California. In 2004, home protection fees written totaled \$3,701,402. Business is produced by account managers, which are paid a base salary plus a percentage bonus on closed orders.

### REINSURANCE

The Company does not utilize reinsurance.

## FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2004

Underwriting and Investment Exhibit for the Year Ended December 31, 2004

Reconciliation of Surplus as Regards Contract Holders from December 31, 2001  
through December 31, 2004

Reconciliation of Examination Changes as of December 31, 2004

Statement of Financial Condition  
as of December 31, 2004

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 411,459	\$	\$ 411,459	(1)
Common stocks	1,123,247		1,123,247	(1)
Mortgage loans on real estate	203,176	203,176		(2)
Cash on deposit	300,755		300,755	
Home protection contract fees receivable	30,380		30,380	
Electronic data processing equipment	19,071	9,536	9,535	
Equipment & furniture	1,309	1,309		
Prepaid payroll taxes	10,000		10,000	
Other receivables	<u>12,045</u>	<u>12,045</u>		
Total assets	<u>\$2,111,442</u>	<u>\$226,066</u>	<u>\$1,885,376</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Claims adjusted and unpaid or in the process of adjustment			\$ 90,033	(3)
Claims service expense			12,650	(4)
Other expenses due and accrued			6,296	
Unearned home protection fees			1,479,026	
Accrued premium tax			<u>2,983</u>	
Total liabilities			1,590,988	
Common capital stock		\$ 75,072		
Gross paid-in and contributed surplus		92,076		
Unassigned funds (surplus)		<u>127,240</u>		
Surplus as regards contract holders			<u>294,388</u>	
Total liabilities, surplus and other funds			<u>\$1,885,376</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2004

Statement of Income

Underwriting Income

Home protection contract fees earned		\$3,643,722
Deductions:		
Claims incurred	\$1,663,500	
Claims service expenses incurred	431,927	
Other expenses incurred	<u>1,647,956</u>	
Total underwriting deductions		<u>3,743,383</u>
Net underwriting loss		(99,661)

Investment Income

Net investment income earned	\$ 11,243	
Net realized capital gains	<u>73,472</u>	
Net investment gain		<u>84,715</u>
Net loss before federal income taxes		(14,946)
Federal income taxes incurred		<u>0</u>
Net loss		<u>\$ (14,946)</u>

Capital and Surplus Account

Surplus as regards contract holders, December 31, 2003		\$ 509,960
Net loss	\$ (14,946)	
Net unrealized gain	10,567	
Change in non-admitted assets	<u>(211,193)</u>	
Change in surplus as regards contract holders for the year		<u>(215,572)</u>
Surplus as regards contract holders, December 31, 2004		<u>\$ 294,388</u>



Reconciliation of Surplus as Regards Contract Holders  
from December 31, 2001 through December 31, 2004

Surplus as regards contract holders, December 31, 2001, per Examination			\$ 524,403
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net loss	\$	\$ 43,803	
Net unrealized gain	79,660		
Change in nonadmitted assets	<u>          </u>	<u>265,872</u>	
Total gains and losses in surplus	<u>\$79,660</u>	<u>\$309,675</u>	
Decrease in surplus as regards contract holders			<u>230,015</u>
Surplus as regards contract holders, December 31, 2004, per Examination			<u>\$294,388</u>

Reconciliation of Examination Changes  
as of December 31, 2004

<u>Assets</u>	<u>Per Company</u>	<u>Per Examination</u>	<u>Surplus Increase (Decrease)</u>	<u>Note</u>
Mortgage loans on real estate	\$203,176	\$ 0	\$(203,176)	(2)
<u>Liabilities</u>				
Claims adjusted and unpaid or in the process of adjustment	41,086	90,033	(48,947)	(3)
Claims service expense		12,650	<u>(12,650)</u>	(4)
Net decrease to surplus as regards contract holders			(264,773)	
Surplus as regards contract holders, December 31, 2004, per Company			<u>559,161</u>	
Surplus as regards contract holders, December 31, 2004, per Examination			<u>\$ 294,388</u>	

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Bonds, Common Stocks and Cash on Deposit

The Company has bonds and mutual funds held in a brokerage account with Morgan Stanley. Morgan Stanley is not a qualified custodian as defined under California Insurance Code (CIC) Section 1104.9. It is recommended that the Company move its securities to a qualified custodian to comply with CIC Section 1104.9.

### (2) Mortgage Loans on Real Estate

The Company secured a mortgage loan for Mr. and Mrs. James Armstrong. Mr. Armstrong is an Officer and Director of the Company, and as such, the Company is not permitted, under CIC Section 1101(b)(3), to provide a loan to an Officer or Director without obtaining a prior exemption from the California Department of Insurance (CDI). There was no application for an exemption of this transaction prior to the issuance of the mortgage loan. The mortgage loan has been non-admitted for the purposes of this examination, and this matter has been referred to the CDI Legal Division.

### (3) Claims Adjusted and Unpaid or in the Process of Adjustment

The Company uses the first ten days of paid claims subsequent to the balance sheet to estimate its reserve, which does not provide a reasonable reserve for unpaid claims. A review of the subsequent development of unpaid claims indicated that these reserves were deficient by \$48,947. It is recommended that the Company revise its methodology on reserves for claims adjusted and unpaid or in the process of adjustment. This is a repeat comment from the prior examination.

#### (4) Claims Service Expense

The Company did not set-up a reserve for claims service expense based on claims adjusted and unpaid or in the process of adjustment. An examination adjustment of \$12,650 was established based on applying 50% of the Company's paid claims service expense to the paid claims ratio. It is recommended that the Company establish a claims service expense. This is a repeat comment from the prior examination.

### SUMMARY OF COMMENTS AND RECOMMENDATIONS

#### Current Report of Examination

Company History – (Page 2): It is recommended that the Company take corrective action and comply with CIC Section 690.

Management and Control – Conflict of Interest (Page 3): It is recommended that the Company adopt a more comprehensive conflict of interest policy that is completed on an annual basis.

Corporate Records (Page 3): It is recommended that the Company take corrective action to comply with its by-laws.

Comments on Financial Statement Items – Bonds and Stocks (Page 9): It is recommended that the Company move its securities to a qualified custodian to comply with CIC 1104.9.

Comments on Financial Statement Items – Claims Adjusted and Unpaid or in the Process of Adjustment - (Page 9): It is recommended the Company revise its methodology on reserves for claims adjusted and unpaid or in the process of adjustment.

Comments on Financial Statement Items – Claims Service Expense – (Page 10): It is recommended the Company establish a claims service expense on claims adjusted and unpaid or in the process of adjustment.

### Previous Report of Examination

Comments on Financial Statement Items – Bonds (Page 9): The Company was not in compliance with California Insurance Code (CIC) Section 1104.9. The Company is still not in compliance with CIC Section 1104.9.

Comments on Financial Statement Items – Cash on Deposit: It was recommended that the Company establish follow-up procedures for old outstanding checks. The Company is now in compliance.

Comments on Financial Statement Items – Claims Adjusted and Unpaid or in the Process of Adjustment (Page 9): It was recommended that the Company adopt a reserving methodology that provides for a more accurate unpaid claims reserve. The Company has not complied.

Comments on Financial Statement Items – Claims Service Expenses (Page 10): It was recommended that the Company establish a claims service expense reserve for claims paid and unpaid or in the process of adjustment. The Company has not complied.

## ACKNOWLEDGEMENT

The undersigned would like to thank the Company's officers and employees for their cooperation and assistance during the course of this examination.

Respectfully Submitted,

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Jennifer Edie  
Examiner-In-Charge  
Associate Insurance Examiner  
Department of Insurance  
State of California